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BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, D.C. 20268-0001

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POSTAL RATE AND FEE CHANGES, 1997 )  
\_\_\_\_\_ )

Docket No. R97-1

DIRECT TESTIMONY  
OF  
NICHOLAS CAVNAR  
ON BEHALF OF  
AMERICAN BUSINESS PRESS

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**DIRECT TESTIMONY OF NICHOLAS CAVNAR  
ON BEHALF OF AMERICAN BUSINESS PRESS**

1 My name is Nicholas Cavnar. My current position is Vice President, Circulation, for  
2 Intertec Publishing Corporation, which has headquarters in Overland Park, Kansas. Intertec  
3 publishes 68 trade and professional magazines and tabloids, and we mail approximately 3  
4 million copies of these magazines each month at the Periodicals rate. A list of the company's  
5 periodicals is attached. (Appendix A).

6 Most of Intertec's publications have relatively small circulation, with almost 70 percent  
7 having fewer than 40,000 copies per issue. Our largest publication, which serves the farming  
8 industry, has 265,000 copies per issue. Based on my experience at other national magazine  
9 publishers, and my activities on postal and industry advisory panels, I would say that the sizes  
10 of our publications are similar to most periodicals with national distribution.

11 My background includes posts as a circulation manager at Crain Communications  
12 Company from 1985 to 1986; as circulation director at Ward's Communications, which was  
13 owned by International Thomson Business Publishing and then by Intertec, from 1988 to 1991;  
14 and as a circulation director at Cahners Publishing Company from 1991 to 1994. Through

1 those positions, I came to my current post with direct working experience with a total of  
2 seventy other publications.

3 I am currently a member of the American Business Press (ABP) Washington Legal  
4 Committee, which develops postal policy for ABP. I also serve as one of ABP's  
5 representatives on the Mailers Technical Advisory Committee (MTAC), and I am a member of  
6 the association's Postal and Circulation Subcommittees. I am also a member of the Circulation  
7 Management Advisory Committee to BPA International, which provides circulation auditing  
8 services for more than 1,600 member periodicals.

9 As Intertec's Vice President, Circulation, my duties include responsibility for all  
10 operations involved in maintaining subscriber records and delivering our publications to our  
11 subscribers. We operate an in-house subscription fulfillment department serving more than 50  
12 of our publications, so we produce our own postal sortation and labels, using Group 1  
13 software, and are responsible for ensuring that our magazines meet requirements for  
14 Periodicals status.

#### 15 **PURPOSE OF TESTIMONY**

16 The purpose of my testimony is to explain in part ABP's position that the Commission should  
17 recommend a periodical rate schedule no higher than that proposed by USPS. (Neither I nor  
18 other ABP witnesses are endorsing any particular methodology used by USPS to arrive at those  
19 rates however.) The Commission certainly should not adopt rates higher than those proposed  
20 for regular-rate periodicals, for reasons expressed below.

**DISCUSSION**

The increases proposed for regular-rate periodicals in this case come on the heels of recent increases paid by those periodicals that (a) cannot for the most part sort to carrier route and (b) do not at present qualify for automation (barcode) discounts. The magnitude of these increases is demonstrated in the comparative chart that follows, in which the R94-1 per-piece periodical regular rates by presort and automation status are compared with the corresponding per-piece charges adopted in the MC95-1 classification case (which for national publishers was a rate case in the end) and with the rates proposed by USPS in the current rate case.

1 account under criterion four.”

2 I understand that criterion four, “[T]he effect of rate increases on the general public,  
3 business mail users, and enterprises in the private sector of the economy engaged in the  
4 delivery of mail matter other than letters,” is a factor that must be considered in developing  
5 markups that each subclass must bear. The statement by Witness O’Hara, however, is a rather  
6 terse description of very significant changes in rates for publishers, changes that did not affect  
7 other subclasses in the same way.

8 In our own company, where we can compare magazines of differing size and  
9 geographic distribution, we have seen that "Classification Reform" did indeed amount to a rate  
10 increase for smaller publications with dispersed circulation. Smaller publications lack the  
11 densities needed to achieve a high level of carrier route or even five-digit sortation.  
12 Consequently, these publications must mail a high percentage of copies at the basic and 3/5  
13 digit rates, whether automation or non-automation, and they received the highest increases  
14 under "Classification Reform".

15 In addition, a rule change implemented as part of "Classification Reform" required all  
16 publishers to separate addresses without a nine-digit zip code from the automated mailstream.  
17 Since no list can currently match 100 percent of addresses to the postal database used to assign  
18 nine-digit codes, this rule effectively requires all publishers to mail a portion of their  
19 subscriber copies as a separate mailstream, which is typically too small for effective sortation.  
20 This change pushed yet more copies out of five-digit and three-digit sortation into an ADC  
21 level at the basic rate, causing yet further increases in actual postage cost (even if not in rates).

1 Further adding to the cost burden of reclassification for periodicals mailers, the presort  
2 requirements implemented from July 1, 1996 through January 1, 1997 were indeed "vastly  
3 different," as attested to by Witness Moden (Transcript page 5617). The distribution network  
4 was changed, with state distribution centers replaced by Area Distribution Centers (ADC).  
5 Optional city package and sack preparation levels were eliminated, as were SCF packages and  
6 sacks, and the minimum number of pieces for certain sack levels were increased.

7 These changes required many revisions to sortation software, which could not be  
8 completed on time for the implementation dates, forcing publishers and fulfillment operations  
9 to scramble for other means to produce labels. USPS did recognize these problems and  
10 granted the industry extensions and waivers, but many publishers incurred additional costs  
11 during this chaotic time in order to produce labels. My own company had to outsource our  
12 mailing label production for five months, due to software problems, at a cost of more than  
13 \$150,000.

14 In Intertec's experience, and that of other publishing companies with similar magazines,  
15 the net impact of "Classification Reform" (once the dust of the transition had settled) was to  
16 raise postal costs by 5 percent to 7 percent for most magazines with a circulation of 100,000 or  
17 less. USPS Witness Taufique estimated a 7.8% increase after July, 1996 for a periodical sorted  
18 to five digits, mailed to Zone 5, and containing 58% editorial content (the USPS average).  
19 (Transcript page 4845). The USPS Marketing Department has estimated that a "national  
20 magazine" would receive an additional 6.6% increase if the proposed USPS rates are  
21 recommended. I agree with witness O'Hara that, under criterion four, the impact of this recent

1 increase should be taken into account in calculating the general effect of any additional increase  
2 upon periodical publishers.

3         Witness O'Hara also stated (USPS-T30 at 30) that he took into consideration  
4 ratemaking criterion eight--the "educational, cultural, scientific and informational value of the  
5 mail" (ECSI) to moderate the cost coverage for periodical mail. However, he did not  
6 elaborate upon this point. I believe this point deserves further discussion, especially in light of  
7 the fact that publishers have been especially affected adversely by per-piece rate increases and  
8 widening gaps between non-automated and automated per-piece rates.

9         Smaller circulation journals and periodicals, like the ones for which I am responsible,  
10 carry business, educational, and scientific news that often is not replicated or reported in detail  
11 by daily newspapers or by television and radio. This information has extremely high value to  
12 the recipients, and to the economic and cultural health of our nation as a whole. My company  
13 has come to appreciate the value of this information more than ever in the past year, when we  
14 entered negotiations with government agencies in the People's Republic of China to establish  
15 industry publications for that country. The Chinese government is extremely eager to offer its  
16 developing industries access to the same technical and business information that is distributed  
17 in this country through business publications.

18         Given the value of the information these publications provide, and the relatively high  
19 increases that many have just experienced under "Classification Reform," I submit that ECSI  
20 should be considered as a major factor (along with the factors discussed by other periodical  
21 witnesses) in determining the appropriate cost coverage for periodicals in this case, and that the

1 cost coverage should not be higher than the 107% proposed by USPS.

2 As further argument to support restraint on cost coverage for periodicals, I would point  
3 out that many periodicals continue to be restricted from taking full advantage of automation  
4 discounts by limitations of the Postal Service's equipment and address technology. Witness  
5 McGarvy and others will discuss the impact of the relatively slow deployment of equipment  
6 (i.e. the FSM 1000 flats sorter and barcode readers) on tabloids and other periodical flats mail  
7 that continues to pay the higher per-piece rates that apply to non-automated flats. My company  
8 publishes six tabloids, including one weekly and three bi-weeklies, that would be able to  
9 barcode and mail at automation rates today if the Postal Service had the right equipment  
10 available now.

11 I, like Witness McGarvy, attended both MTAC and specially arranged meetings of the  
12 ABP Postal Subcommittee with senior USPS operations and marketing managers to urge  
13 quicker deployment of flats sorters designed for the real world of publishing. In other words,  
14 while most magazines are standard trim, tabloids are an important part of the class, as are  
15 magazines and tabloids of all sizes that are mailed in polybags for protection or to enclose  
16 supplements. While some kinds of polywrap have now been approved by USPS for use with  
17 the current FSM 881, the reality is that the most available and widely used polywrap materials  
18 still cannot be accommodated by the FSM 881.

19 We sincerely hope that the FSM 1000 will be the open gateway for automation and  
20 mechanized handling of flats that Witness Moden and others have told us that it will be. In the  
21 meantime however, USPS' own statistics demonstrate that too few non-carrier route flats are



1 receiving mechanized handling, which not only increases our postal rates, but hampers  
2 efficiency for the Postal Service.

3 Even for those periodicals without a size-related problem, there are other impediments  
4 that prevent publishers from matching a higher percentage of their addresses to a nine-digit zip  
5 code in order to receive an automation discount for those pieces. I am currently a member of  
6 an MTAC workgroup addressing this problem, in which we have identified 18 major obstacles  
7 to improving the coding of addresses. These obstacles include shortcomings in the postal  
8 database of addresses, and the lack of a mechanism for local post offices to send correct,  
9 codeable addresses back to mailers. Unlike advertising mailers, who may elect not to mail  
10 promotions to addresses that cannot be barcoded, periodicals publishers must mail to all  
11 subscribers regardless of whether we can obtain an automation discount for their address.

12 As mentioned earlier in my testimony, not only must we forego the automation discount  
13 for this portion of our mail, but as of January 1, 1997, these non-automated pieces were  
14 required to be mailed as a separate mailstream, which is being sorted at levels that are more  
15 expensive for us to mail and less efficient for the post office to handle. If they are not mailed  
16 separately, the entire mailing could pay non-automated higher rates, even if, as is common,  
17 90% or more of the pieces carry recognized nine digit barcodes.

18 As a final comment on the cost impacts of Classification Reform, I would emphasize  
19 that the problems enumerated above not only cause higher postal costs for publishers, but also  
20 contribute to higher costs projected by USPS for the handling of flat-sized mail, including  
21 periodicals. For example, investigations by another MTAC workgroup have led to the

1 conclusion that the move to ADC sortation under classification reform actually increased the  
2 amount of handling and re-sacking of flats that the Postal Service must perform, creating  
3 service delays and higher costs.

4 The Postal Service is now proposing to restore the SCF sack for periodicals. Other  
5 initiatives from the USPS and industry groups such as MTAC are addressing the obstacles to  
6 automating tabloids and polywrapped magazines, improving the barcoding of labels, and  
7 improving sortation and handling of non-automated copies. As these problems are solved, we  
8 should see a much higher volume of periodicals being automated, which should lead to lower  
9 periodical costs in the test year than currently projected.

10 For all of these reasons—the recent cost increases incurred by many periodicals under  
11 Classification Reform, the information value of these periodicals, and the opportunities to  
12 lower current handling costs through further automation—I urge the Commission to use the  
13 most conservative markup it can for periodical mail.

14 ABP also supports the new three-digit sortation discount, as proposed by USPS. This  
15 proposal is a practical way to offset some of the MC95-1 increases while offering, to a limited  
16 extent at least, the possibility of offsetting some of the cost impact of Classification Reform,  
17 such as the loss for many pieces of 3/5 digit discounts. I agree with USPS witness Tauflique  
18 who said, “This proposed change...provides a fair and equitable allocation of costs based on  
19 the work actually done by mailers in presorting their mail.” This new incentive will better  
20 conform rates to how USPS now handles all three-digit packages, and eliminates obsolete  
21 distinctions between different three-digit make-up schemes.

1           In particular, the proposed discount will help the USPS and mailers address one of the  
2 problems described in my testimony above: sortation of the non-automatable addresses in  
3 periodicals mailings. I am personally working with the Postal Service in an MTAC work  
4 group trying to establish sortation rules that would allow these non-automated pieces to be  
5 sorted and sacked as part of the automation mailstream, while packaged separately for efficient  
6 handling on sorting equipment. This will greatly improve handling of these pieces, which have  
7 proven to be very labor intensive when mailed as a small, separate mailstream. One obstacle in  
8 our current effort is differences in the rules for three-digit sortation of automated and non-  
9 automated mail. The proposed three-digit rate would harmonize those differences, and allow  
10 us to implement a sortation change that should lower costs for both publishers and the postal  
11 service.

12           I learned recently that the USPS filing in this case did not take into account the  
13 migration from basic rate levels of added three-digit volume when projecting the test year costs  
14 and revenues. As with automated volumes, the test year may produce more presorted volumes  
15 than anticipated, with lower costs to USPS, and thus a higher cost coverage than anticipated  
16 for periodicals. Also, the hoped-for resolution of the split mailing problem for non-automated  
17 copies could restore the prior presortation levels, and thus result in lower costs and a higher  
18 cost coverage as well.

19           Therefore, ABP recommends that the rate schedule proposed by USPS for regular-rate  
20 periodicals be approved by the Commission and sent to the USPS governors for final adoption.

## **Intertec Publishing**

### **Publications by Industry Served**

#### **Agriculture**

- BEEF
- California-Arizona Farm Press
- Delta Farm Press
- Farm Industry News
- Hay & Forage Grower
- National Hog Farmer
- Southeast Farm Press
- Southwest Farm Press
- Soybean Digest

#### **Apparel & Textiles**

- The Press
- Stitches Magazine
- Textile World
- Wearables Business

#### **Automotive & Trucking**

- Fleet Owner
- Modern Bulk Transporter
- Refrigerated Transporter
- Trailer/Body Builders
- Ward's Auto World
- Ward's Automotive International
- Ward's Automotive Reports
- Ward's Automotive Yearbook
- Ward's Dealer Business
- Ward's Engine & Vehicle Technology Update

#### **Communications & Entertainment**

- BE Radio
- Broadcast Engineering
- Cellular & Mobile International
- Electronic Musician
- Global Telephony
- Lighting Dimensions
- Millimeter
- Mix
- Mobile Radio Technology
- RF Design
- Satellite Communications
- Sound & Video Contractor
- Telephony
- TCI (Theatre Crafts International)
- Video Systems
- Wireless Review
- World Broadcast News

Electrical

- CEE News
- EC&M
- Electrical Marketing
- Electrical Wholesaling

Facilities Management

- Access Control & Security Systems Integration
- American School & University
- Grounds Maintenance

Government, Public Services & Utilities

- American City & County
- Fire Chief
- Transmission & Distribution World
- Utility Business
- World Wastes

Health & Fitness

- Better Nutrition
- Club Industry
- Health Management Technology
- Swimming Pool/Spa Age

Mining & Construction

- C&D Debris Recycling
- Coal Age
- Concrete Products
- Engineering & Mining Journal
- International Construction
- Rock Products
- Rock Products Cement Edition

Printing & Packaging

- Adhesives Age
- American Printer
- Boxboard Containers International
- Empaque Latinoamericanos
- Paper, Film & Foil Converter

Real Estate & Investment

- Commercial Real Estate South
- National Real Estate Investor
- Midwest Real Estate News
- Registered Representative
- Shopping Center World
- Trusts & Estates